

Message Text

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ORIGIN OPIC-06

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FM SECSTATE WASHDC

TO AMEMBASSY YAOUNDE PRIORITY

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FROM OPIC

E.O. 11652:N/A

TAGS: EFIN

SUBJECT: RICE PROJECT

REF: YAOUNDE 3026

1. OPIC WISHES TO ELABORATE ON OUR POSITION REGARDING CHEMONICS RICE PROJECT. SEE OUR STATEMENTS IN REF(A) RE "INDETERMINATE AND PREMATURE IMPLEMENTATION" AND OUR UNWILLINGNESS TO PARTICIPATE "AT THIS TIME." THERE ARE A NUMBER OF POINTS TO BE MADE CONCERNING MINAGS INSISTANCE THAT TOTAL PROJECT BE IMPLEMENTED AT THIS TIME AND OUR JUDGMENT ON ASSUMPTIONS OF SALES, YIELDS, COSTS AND THE EFFECTIVE LIFE OF THE PROJECT.

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2. EVEN IF ALL ASSUMPTIONS ARE ACCEPTED AS TRUE, SALES

AND YIELDS VERSUS COSTS WILL PROVIDE A VERY SMALL MARGIN FOR DEBT SERVICE FROM CASH FLOW. IN THE FIRST FIVE YEARS THE MARGIN IS ONLY 14 PERCENT. IN OTHER WORDS, IF ONE DOLLAR COMES IN FROM GROSS PROFITS, EIGHTY-EIGHT CENTS WILL GO TO DEBT SERVICE. OPIC NORMALLY LOOKS FOR A 2:1 RATIO ON RAW PROJECTIONS (ONE DOLLAR IN CASH FLOW FOR FIFTY CENTS DEBT SERVICE), SINCE ACTUAL CASH FLOW IS LIKELY TO BE REDUCED BY ADVERSE CHANGES IN PROJECT RESULTS DUE TO COST OVERRUNS, DELAYS, POOR WEATHER AND OTHER UNFORESEEN SURPRISES. HOWEVER, WE DO NOT ACCEPT THE ASSUMPTIONS.

3. YIELDS ARE SPECULATIVE SINCE UPLAND RICE IS GENERALLY MUCH LOWER YIELDING THAN IRRIGATED RICE; THE AREA IS NOT IDEAL FOR UPLAND RICE (100-200 MM RAIN/MONTH VERSUS 250 MM IDEAL); AND MINAG OVERRULED CHEMONICS CONCLUSION THAT THE PROJECT WOULD BEST BE SERVED BY NO-TILL CULTIVATION,

WHICH WOULD IMPROVE MOISTURE HOLDING CAPACITY OF THE SOIL; OPIC UNDERSTANDS LOCATION OF PROJECT IS A GIVEN; TEELE TOLD US AREA IS NOT SUITABLE FOR IRRIGATED RICE BECAUSE IT IS TOO HILLY, THEREFORE MODE OF PRODUCTION (UPLAND RICE) IS A GIVEN.

4. SALES ARE SPECULATIVE DUE TO LOW GOVERNMENT CONTROLLED PRICES AND UNCERTAIN YIELDS. OPIC DOES NOT LOOK TO GOVERNMENT GUARANTIES ON PROJECTS SINCE WE WANT PROJECTS

TO STAND ON THEIR OWN MERITS. IN THE PRESENT CASE, THE FULL GURC SUPPORT FOR THE PROJECT MIGHT BE MOST APPROPRIATE IN THE FORM OF GUARANTEED PURCHASES FROM THE PROJECT.

5. COSTS ARE SPECULATIVE AT THIS TIME, ALTHOUGH CHEMONICS STUDY DID GOOD JOB IDENTIFYING AND ESTIMATING THEM.

6. THE EFFECTIVE LIFE OF THE PROJECT IS VERY SPECULATIVE. PESTS AND WEEDS ARE A PRIME FACTOR IN ALL SUB-TROPICAL RICE AND IN THE CASE OF UPLAND RICE USUALLY REQUIRE RECROPPING OR ABANDONMENT OF THE LAND AFTER 4-5 YEARS. THIS IS ONE REASON WHY MOST EXPERTS WE'VE TALKED TO RECOMMEND LIMITED OFFICIAL USE

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AGAINST UPLAND RICE AND SOME WILL NOT EVEN DISCUSS IT.

7. REF(A) PARA 2. OPIC HAS NOT CLOSED THE DOOR ON THE PROJECT. AS EMBASSY AWARE, OPIC OPERATES ON A SELF-SUSTAINING BASIS AND MAKES LOANS TO PROJECT WHICH ARE FINANCIALLY AND COMMERCIALY VIABLE. THE PROPOSED 23 MILLION DOLLAR RICE PROJECT DOES NOT PASS THIS TEST. WHAT OPIC DID NOT KNOW WHEN DCM WAS IN WASHINGTON WAS THAT, EVEN

AT THE UNSUBSTANTIATED THREE TON PER HECTARE ASSUMED RICE YIELD, THE PROJECT IS MARGINAL. SINCE ALL PARTIES KNEW MINAG WAS ADAMANT AGAINST PILOT PROJECT APPROACH WE BARELY MENTIONED IT IN LETTER TO CHEMONICS.

8. A PILOT PROJECT MAY ANSWER THE PROBLEMS OF NO. 5, AND PROVIDE SOME INFORMATION FOR NO. 3. A GURC OFFTAKE GUARANTEE MAY SOLVE NO. 4. INFORMATION ON NO. 6 WILL BE IN THE FORMATIVE STAGES NEAR THE END OF A PILOT PROJECT. ALL OF THIS WILL ALLOW US TO RE-ADDRESS THE THRESHOLD QUESTION RAISED IN NO. 2 AND A DECISION WITH RESPECT TO THE FEASIBILITY OF WHOLE PROJECT WILL BE WITHIN REACH.

9. TO RECAP OPIC WAS REQUESTED TO LEND 3.0 MILLION DOLLARS TO PROJECT AND EX-IM WAS REQUESTED TO LEND 8.0 MILLION DOLLARS. TERMS OF LOANS 11 YEARS INCLUDING 4 YEAR GRACE. REALISTICALLY, OPIC TURNDOWN NOT NECESSARILY CRITICAL TO PROJECT, BECAUSE TEELE FELT HE COULD HAVE POSSIBLY LOCATED MISSING 3 MILLION DOLLARS FROM U.S. COMMERCIAL BANKS, ALBEIT AT HIGH COST TO PROJECT. TURNDOWN BY BOTH EX-IM AND OPIC, HOWEVER, EFFECTIVELY KILL U.S. FINANCING. IN SPITE OF SMALLER SIZE OPIC LOAN, OPIC RECOGNIZES WE OUT FRONT IN THIS DEAL AND NOT SEEKING TO MINIMIZE IMPACT OF OUR TURNDOWN.

10. OPIC OFFICERS HENDERSON AND BANKS MET WITH CAMEROON

ECONOFF NJAWE ON AUGUST 20 TO INFORM HIM OF DECISION ON PROJECT AND MAKE ABOVE POINTS IN EFFORT TO MINIMIZE POLITICAL FALLOUT FROM TURNDOWN LETTER. HE PLANNED TO

INFORM NOMO AND TCHETGEN OVER WEEKEND OF EX-IM AND OPIC DECISIONS. HE FELT MINAG WOULD TAKE DECISION AS POLI-LIMITED OFFICIAL USE

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TICAL AFFRONT IN SPITE OF BUSINESS-BASIS FOR OPIC AND EX-IM OPERATIONS. DISCUSSED SUGGESTION REF(A) OF OPIC VISIT TO CAMEROON TO EXPLAIN DECISION TO GURC OFFICIALS AND WE CONCLUDED EMBASSY PROBABLY IN BEST POSITION TO EXPLAIN SUBTLETIES U.S. GOVERNMENT DECISION-MAKING PROCESS. IN ANY EVENT VISIT BY HOPE OR HENDERSON NOT POSSIBLE BEFORE FIRST OCTOBER. PLEASE CONTINUE ADVISE US ON THIS POINT.

11. OPIC WISHES TO ASSURE EMBASSY THAT CAMEROON IS STILL ONE OF OPIC'S FOUR "PROMOTION" COUNTRIES IN AFRICA. DECISION PROCESS ON RICE PROJECT HAS SOMEWHAT DELAYED LAUNCHING OF INVESTMENT IDENTIFICATION EFFORT BUT EXPECT TO SEND INVESTMENT OFFICER FOR TWO WEEK STAY IN CAMEROON

LATER THIS YEAR TO SEEK OUT OTHER OPPORTUNITIES ATTRACTIVE

TO U.S. FIRMS AS WE HAVE PREVIOUSLY DONE IN IVORY COAST,
TUNISIA AND KENYA. VISIT WILL ALSO INCLUDE FOLLOW-UP ON
WESTAM MISSION INTERESTS, WHICH WILL BE DETAILED BY LETTER.
IN THE CONTEXT OF RICE PROJECT DECISION, VISIT WOULD
DEMONSTRATE OPIC'S CONTINUED CONFIDENCE IN CAMEROON AND
CONTINUATION EFFORTS TO PROMOTE CAMEROON AMONG U.S.
BUSINESS COMMUNITY. DECONTROL FOLLOWING AUGUST 24, 1977. KISSINGER

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